

Message Text

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41

ACTION NEA-12

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 ADP-00 EB-11 COME-00

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TRSE-00 SS-15 NSC-10 L-03 H-03 RSR-01 CIEP-02 OMB-01

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R 041355Z AUG 73

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 3334

AMEMBASSY ATHENS

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY THE HAGUE

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY MANILA

PARIS USOEDC 1868

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMEMBASSY DHAHRAN

C O N F I D E N T I A L TEHRAN 5491

DEPT PASS COMMERCE; KUWAIT PASS MANAMA AND ABU DHABI

E.O. 11652: GDS

TAGS:ENRG, IR

SUBJ: OIL-NIOC POLICY ON CRUDE SALES; RESERVES AND FUTURE
PRODUCTION IN IRAN

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REF: TEHRAN 5387.

1. SUMMARY: NIOC APPEARS TO BE ADHERING TO POLICY ESTABLISHED BY SHAH THAT ITS EXPORT CRUDE SHOULD BE USED TO OBTAIN OWNERSHIP IN DOWNSTREAM OPERATIONS. ACCORDINGLY, DIRECT SALES OF NIOC CRUDE BEING LIMITED TO SMALL AMOUNTS OVER SHORT PERIOD. AVAILABILITY OF EVEN THESE LIMITED SALES EXPECTED DECREASE SHARPLY AS NIOC'S EXPORT ALLOTMENTS UNDER NEW ARRANGEMENTS WITH CONSORTIUM PROGRESSIVELY TAKEN UP BY DOWNSTREAM COMMITMENTS. EMBASSY'S ESTIMATES OF FUTURE PRODUCTION AND RESERVES OUTLINED PARA 7. END SUMMARY.

2. EMBASSY HAS NOW HAD OPPORTUNITY BOTH TO RECEIVE NUMERIOUS FULL EXPLANATIONS OF NIOC POLICY ON SELLING CRUDE TO BE RECEIVED UNDER NEW ARRANGEMENTS WITH CONSORTIUM AND TO WATCH EARLY IMPLEMENTATION OF POLICY. IN UNDERSTANDING THIS POLICY IMPORTANT TO NOTE GOI FROM BEGINNING OF RECENT NEGOTIATIONS WITH CONSORTIUM DELIBERATELY CHOSE NOT TO ASK FOR LARGE QUANTITIES CRUDE COMPARABLE TO THOSE MADE AVAILABLE BY PARTICIPATION TO IRAN'S ARAB NEIGHBORS. AMOUNTS OF CRUDE FOR INTERNATIONAL MARKETING IRAN WILL RECEIVE UNDER NEW ARRANGEMENTS ARE:

MB/D

1973	200
1974	300
1975	450
1976	600
1977	750
1978	900
1979	1,100
1980	1,300
1981	1,500

THESE AMOUNTS ARE FIXED AND, UNLESS AGREEMENT ALTERED FOR ALL PRACTICAL PURPOSES WILL NOT CHANGE REGARDLESS OF HOW MUCH OIL PRODUCED IN CONSORTIUM AREA.

3. GOI POLICY, SET BY SHAH, IS THAT NIOC MUST USE ITS EXPORT CRUDE TO GAIN PARTICIPATION IN REFINING AND DISTRIBUTION FACILITIES. NIOC WILL THEREFORE NOT RPT NOT MAKE CRUDE SALES WHICH DO NOT RPT NOT OFFER SUCH OPPORTUNITIES EXCEPT FOR SMALL AMOUNTS OVER VERY SHORT PERIODS. AT THIS TIME THERE IS A WAITING LIST OF SOME 2,000 APPLICANTS TO BUY THIS SHORT-TERM CRUDE.

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4. ON DOWNSTREAM OPERATIONS, NIOC FIRST PREFERENCE IS TO SWAP CRUDE FOR EQUITY AND MANAGEMENT PARTICIPATION IN EXISTING FULL PRODUCT LINE REFINERIES IN CONSUMING COUNTRIES. THESE REFINERIES MUST ALSO HAVE ASSOCIATED DISTRIBUTION FACILITIES IN WHICH NIOC CAN PARTICIPATE WHEN IT WISHES. THE SECOND PREFERENCE IS FOR REFINERIES IN IRAN WHICH MAY PROVIDE ANY PRODUCT PATTERN DESIRED. NIOC INTENDS FORM JOINT VENTURES, WITH NIOC CONTRIBUTING CRUDE AND FOREIGN PARTNERS PROVIDING ALL THE FINANCING. AT THE MOMENT THE

NIOC APPEARS TO BE IN THE LAST STAGES OF NEGOTIATION WITH SEVERAL AMERICAN COMPANIES FOR PARTICIPATION IN REFINERIES IN THE U.S. (REFTEL) AND HAS COMMITMENTS TO, OR IS FAR ADVANCED IN NEGOTIATIONS FOR PARTNERSHIP IN REFINERIES IN GREECE AND BELGIUM AND FOR TWO SUCH REFINERIES IN IRAN WITH GERMAN AND JAPANESE PARTNERS. EVEN IF ONE OR MORE OF THESE PROSPECTS FALLS THROUGH, OTHERS WILL PROBABLY QUICKLY TAKE ITS PLACE. IT APPEARS THAT WITHIN A YEAR IRAN WILL HAVE ALL OF THE CRUDE AVAILABLE TO IT FROM ABOUT 1978 ON FULLY COMMITTED, AND THAT NIOC CRUDE FOR EVEN SHORT-TERM PURCHASES WILL BECOME UNAVAILABLE AS THE REFINERIES IN WHICH NIOC HAS BECOME A PARTNER SUCCESSIVELY COME ONSTREAM.

5. NIOC, DESPITE FRENZIED ENTREATIES AND ALL MANNER OF PERSONAL AND CORPORATE INDUCEMENTS FROM AN EXTREMELY HETEROGENEOUS ASSORTMENT OF WOULD-BE BUYERS, HAVE STUCK STEADFASTLY TO POLICY

DESCRIBED ABOVE. TO THE EMBASSY'S KNOWLEDGE NO LARGE SALES AND NO SALES FOR PERIODS LONGER THAN A YEAR HAVE BEEN MADE TO ANY BUYER NOT OFFERING REFINERY PARTICIPATION. WE WOULD WELCOME ANY INFORMATION ADDRESSEES MAY HAVE TO THE CONTRARY. UNLESS THERE IS A CHANGE IN DIRECTIVE FROM NIOC WE SEE LITTLE LIKELIHOOD THAT PRESENT POLICY WILL ALTER. ACTIONS BY SOME HIGH-RANKING NIOC OFFICIALS WILL PROBABLY CONTINUE TO GIVE RISE TO RUMORS OF EXCEPTIONS IN PRACTICE TO THIS POLICY, BUT WE EXPECT FEW, IF IN FACT ANY, SUCH EXCEPTIONS TO BE MADE.

6. EMBASSY HAS NOW ASCERTAINED FROM CONSORTIUM THAT CONTRARY TO TEHRAN 4513, (NOTAL), FIGURES IN REZA FALLAH'S SPEECH ON JUNE 23 WERE PROVIDED BY CONSORTIUM. CONSORTIUM ASSERTS FIGURES ENTIRELY ACCURATE. EMBASSY CONTINUED VIEW FIGURES WITH CONSIDERABLE SKEPTICISM--CONSORTIUM AND FALLAH HAD COMMON INTEREST IN PRESENTING LOW RESERVE AND PRODUCTION FIGURES: FALLAH WAS MAKING ARGUMENT THAT FIXED AMOUNTS FOR EXPORTS AND AMOUNTS FOR DOMESTIC

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USE, BOTH OF WHICH CONSORTIUM MUST PROVIDE NIOC BEFORE EXPORTING OIL, WOULD TOGETHER TAKE EVER INCREASING PERCENTAGE OF DECLINING PRODUCTION IN 1980'S; CONSORTIUM WANTED AVOID COMMITMENTS TO HIGHER PRODUCTION LEVELS FOR WHICH GOI MIGHT BE TEMPTED TO PRESS. FURTHERMORE, CONSORTIUM FIGURES APPARENTLY DO NOT INCLUDE BANGESTAN FORMATION WHICH MAY WELL BE AS EXTENSIVE AND PROLIFIC AS ASMARI FORMATION WHICH NOW PROVIDES BULK CONSORTIUM PRODUCTION.

7. THIS WELTER OF CONFLICTING DATA, FURTHER CONFUSED BY FALLAH'S PARTIAL RETREAT FROM HIS FIGURES IN A JULY 15 SPEECH FOLLOWING FOREIGN PRESS CRITICISM, MAKES EMBASSY PREDICTION ON IRANIAN RESERVES AND PRODUCTION ESPECIALLY HAZARDOUS. HOWEVER, UNTIL HARD FIGURES AVAILABLE FOLLOWING FINAL REPORT IN OCTOBER BY CONSORTIUM CONSULTANTS WHO HAVE BEEN MAKING VERY DETAILED RESERVOIR STUDIES FOR FOR LAST 18 MONTHS, EMBASSY USING FOLLOWING HIGHLY TENTATIVE

ESTIMATES. CONSORTIUM AREA RECOVERABLE RESERVES: 60 BILLION BBLs
PROVED, 65-70 BILLION BBLs PROBABLE. NON-CONSORTIUM PROVEN 5
BILLION, PROBABLE 8-10 BILLION. CONSORTIUM PRODUCTION: 8 MILLION
B/D BY END OF 1976, REMAINING AT THIS LEVEL FOR 8-10 YEARS. AT
END OF 1980'S SHARP DECLINE IN CONSORTIUM PRODUCTION TO ABOUT 2
MILLION B/D IN 1990. JOINT VENTURE PRODUCTION SHOULD REACH 1
MILLION B/D BY 1980 AND REMAIN THIS LEVEL UNTIL EARLY 1990'S. HECK

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